THE GEM PRINCIPLE

Six Steps to Creating a High Performing Organization

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Preface

New approaches to management and leadership have quickly taken hold in our dynamic business world. In recent years, most companies have restructured or reorganized, selecting their management programs from a range of diverse innovative alternatives. Many have adopted total quality management (TQM) initiatives; some have pursued continuous improvement; others have downsized or rightsized; still others have delayered or have introduced cross-functional teams; and numerous firms have ventured into the area of business process engineering—the effort to achieve a dramatic increase in productivity by radically reorganizing a part or process of a business. There is, however, one fundamental element underlying this diversity: the commitment to establish a greater degree of teamwork among employees, with more responsibility delegated across the organization; that is, the concept of *empowerment,* which acts as the atom from which the molecules of these different approaches are constructed. *The GEM Principle* examines this core concept, presenting six steps for high-performance organization as it narrates a fictional but realistic account of the problems faced by management in a typical American company.

Many business executives, most of them in companies very much like the one depicted in this book, are betting the futures of their organizations on the concept of empowerment. They find the idea so appealing because in a bitterly competitive marketplace, it offers hope for success. Empowerment also has attracted many politicians, providing them with a conceptual foundation on which to base their hopes for effective grassroots action in our society; in a world of distant and unresponsive government institutions, it promises to lend some power to the average individual. In fact, the word *empowerment* is now so widely used that it is rapidly becoming a buzzword, part of a cliché about more freedom for rank-and-file people in both the political world and the business world. Its popularity speaks of the great needs of our time. Although that popularity has also promoted a great deal of distrust, the bottom line is that those in power believe that empowerment will work. When a reporter asked Jack Welch, chairman of General Electric, why, if empowerment is so vital, "so many consider this stuff Mickey Mouse," he replied: "There is cynicism about this stuff in our society. But I think the people who run a lot of today's corporations believe in it. What are we doing this for? To be competitive. To win." ("He Brought GE to Life," *Newsweek,* November 30, 1992, p. 63).

Despite the popular use of the word *empowerment,* the concept is poorly understood by many people. Empowerment is much more than simply setting up teams in a company or establishing local councils in a district and then letting them make decisions and act independently. Instead, for empowerment to produce successful results, several conditions must be met, which themselves demand considerable effort to achieve. The reason for this is straightforward: In a complex organization, islands of empowerment must be coordinated and aligned with one another or the resulting conflict of direction and purpose will create chaos. Making sense of the whole through cooperation among the parts is the function of both political leadership and corporate management. Consequently, empowerment does not mean an end of the hierarchy of power, but rather a reduction in its size and a revision of its functions. For those of us who work in organizations that are experiencing change, understanding what the new empowered environment requires of us is critical to both the success of our careers and the success of our companies.

It is also vital that the cynicism about empowerment be understood for what it is: a basic misconception. Despite the egalitarian principles in which empowerment is so obviously rooted, some people who believe in workplace democracy nevertheless distrust it. Although it conveys the clear message that people should be free to act on their own, it has been denounced for its alleged implication that the many must be given power—"empowered"—by the few who possess it. But those who object on this basis confuse their aspirations with reality. In fact, in a world of large hierarchically organized institutions, power does tend to be concentrated in the hands of the few; however, if they do not relinquish some control, then there cannot be greater initiative for the many. The term *empowerment,* with its implication of delegation downward, is therefore in accord with reality.

Among the conditions most necessary for empowerment is a restructuring of the traditional hierarchy found in most large organizations. In the traditional setting, supervisors are charged with directing the work of subordinates in a way incompatible with empowerment. I have addressed the complex issue of restructuring in a previous book entitled *The Rebirth of the Corporation.* This current book, *The GEM Principle,* supplements *Rebirth* without repeating it. Together, the two volumes present a comprehensive view of how empowerment works in an organization, describing in depth the new structure of business—clusters or empowered teams (*Rebirth*)—and the new style of management that complements it—GEM management (*Empowerment*).

It is hoped that this book will contribute to the improvement of our organizations by helping readers understand better what empowerment entails and what conditions are necessary for its achievement. Although this concept is discussed in the context of business management, it should be remembered that the principles delineated here apply fully to government and offer hope not only for our business organizations but for our society as well.

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Chapter 1

Doing More With Less: The Management Challenge of the Nineties

John Cardenas, an executive in a large corporation, was prepared to do some explaining when he called two department managers, Susan Johnson and Charles LaRucca, into his office for a meeting.

"We're going to be downsizing again," he told them.

"Oh, no!" Susan exclaimed. "Not again."

"Yes, again," Cardenas confirmed.

"And we're not going to get any reduction in our business goals, are we?" Charles asked.

"No."

"That's the management problem of the Nineties, isn't it?" Susan added. "You have to do as much or more with less—a smaller budget, fewer people . . ."

"You're right," John agreed with a sympathetic smile. "But you understand why, don't you?"

He got up from his chair and went to the white board on the other side of his desk.

"First," he began to explain, "the business world is much different than it was a few years ago. I went to an executive seminar at a major university last month, and the participants talked continually about two things: first, how much more rapidly change occurs now than it did in the past, whether it be in technology, economics, or national and global politicals; and second, how very much more competitive every business is—and nowhere more so than in the North American marketplace.

As he talked he wrote on the board:

- *Increased Competition*
- *More Rapid Change*

"To meet the competition and keep up with the increasing pace of change, we must do three things in our business: cut our costs, improve the quality of our products and services, and respond more quickly to our customers."

He wrote on the board:

- *Reduced Cost*
- *Increased Quality*
- *Enhanced Responsiveness*

He paused a moment to let Susan and Charles absorb what he had said; then he asked, "Now, how do we accomplish these things?"

Susan and Charles were silent.

"Well, we do several things," he said. "First, we downsize and delayer our organization to cut costs; then we set up programs like total quality management or market-driven quality to let everyone see that we're serious about improving the quality of our services and products; finally, we establish cross-functional teams of employees to break them out of the stove-pipe mentality of functioning as separate departments and to get them working together, and faster, so that we can be more responsive."

He wrote on the board:

- *Downsizing*
- *Delayering*
- *Total Quality Management*
- *Market-Driven Quality*
- *Increased Delegation*
- *Cross-Functional Teams*

"So that brings us to where we are today," Cardenas told his two subordinates.

"But where is all this taking us?" Charles blurted out. "We can't just keep downsizing and delayering forever and still keep doing more and more work at better quality levels."

Cardenas frowned at him. "To be frank," he said, "I don't know where all this will take us in the long term, but for now, it's what we're going to do. So let's talk about how to make this next round of cuts."

For two hours the three struggled to develop a plan for the upcoming cutbacks. Again and again they debated ways to save this person or that activity.

"It's as if all we're doing is trying to limit our losses," observed Susan with exasperation. "It's all damage control. We don't seem to be trying to achieve much anymore."

While listening to her comments, Charles was suddenly seized by the recollection of a seminar he'd attended a few years ago. "You know," he told the others, "I've a story that may give us a different perspective on this problem."

"Then by all means tell us," Cardenas said.

So Charles did.

CHARLES' STORY

Several years ago I attended a meeting with the management team of the division I was working in. Thirty or so of us gathered in a rather plain room, its walls lined with chairs and its floor covered with a dusty carpet. A facilitator had been brought in to conduct the session, and he began with an exercise.

He told us to think about the people who were present in the room. "Whom do you personally most admire?" he asked. "If I told you that over the next few days each of you had to work on an assignment with someone here, whom would you pick for a partner?" Then he had us write the name of the person on a slip of paper and pocket it.

"Now," he said, "I'd like each of you to go over to the person whose name is on that slip of paper in your pocket,

and when you've paired up with him or her, sit down together on the floor."

There was a lot of milling about and confusion as people sought out their partners and paired up, but soon everyone was seated.

The facilitator seemed pleased and began to walk among the pairs. He stopped and asked one executive, "Who are you with?"

"Joe," the executive answered.

Then the facilitator asked her whose name she had written on the slip of paper in her pocket. When the executive said "Joe," the facilitator nodded and moved on.

But before long he came upon a different situation.

"Who are you with?" he asked another executive, a man in his fifties.

The man said, "Cynthia."

This time when the facilitator asked whose name was on the slip of paper, he received an embarrassed reply.

"Anne," the executive replied with a tremor in his voice.

"So you're not with the person whose name you wrote down?" the facilitator asked.

When the man responded no, the facilitator asked him, "Why not?"

"Well," the man said, "Cynthia's a fine partner too."

It was clear that the man just wanted the facilitator to let the matter drop, but the facilitator wouldn't.

"I'm sure she is," he said, "but did you go over to Anne to see if she'd pair up with you?"

The man said yes, but when the facilitator asked if Anne had refused to be his partner, he found out that the man hadn't even asked her.

"Why not?" the facilitator asked.

The man said, "Well . . . there were a lot of other people around her."

The facilitator asked if she had been a popular choice.

"Yes," the man replied.

Then the facilitator went back to the question of why the executive hadn't asked Anne to be his partner.

"I just didn't," the man said. "There were other people there."

The facilitator seemed to get a little upset. He asked in a demanding tone of voice, "Did they stop you? Did someone push you away?"

The man replied, "No, not at all."

"Then why didn't you ask Anne to pair up with you?" the facilitator asked again. He was relentless.

The man, by now clearly exasperated, finally broke down and admitted, "I was afraid she would want to pair up with someone else, and I didn't want to get rejected."

The facilitator nodded his head appreciatively and thanked the executive. "I know that's an honest answer," he said.

Then he looked at the rest of us. We were all sitting on the floor, listening intently.

"This is only a game," he told us. His attention turned once again to the executive. "But how did you play the game? Did you play to win—to pair up with the person whose name you'd written down on that slip of paper? Or did you play it not to lose—to keep from being rejected or from having to accept failure?"

The executive looked somewhat shame-faced. "I guess I played it not to lose," he said. "I didn't play to win. I didn't take the chance."

Once again the facilitator addressed the entire group.

"How easy it is for each of us to play the game of enterprise not to win, but to protect what we already have. In this business, when we enter the competitive arena we already have jobs and departments. We want to make sure we don't lose anything, so we don't really play the game of enterprise to come out on top. We hedge our bets; we don't cooperate fully with others; we don't take risks that are necessary to be successful. In short, we don't play to win; instead, we play the game not to lose.

"And that, of course," he concluded, "is not the way to win. You have to play to win."

"The danger," Charles concluded, "is that in all this downsizing, if we don't figure out something new, we're going to spend all our time and effort trying not to lose—instead of playing to win."

John Cardenas' eyes lit up. "I couldn't agree with you more," he said. "I heard Indiana's great basketball coach, Bobby Knight, talking about this the other night. He was discussing winning and the desire to win, and he said, 'The desire to win is much less important than the desire to *prepare* to win!'

"When contestants go onto a sports field," John continued, "often they both have the desire to win. But the victory goes to those who have had the will to prepare to win—who are best conditioned, best trained, best drilled, best equipped. This is what Bobby Knight was talking about."

He turned back to Charles. "Your facilitator was right: We have to play to win, not focus our attention on trying not to lose. And Bobby Knight is right: We have to have the will not just to win, but more important, to *prepare* to win."

They discussed the matter for several more minutes; then Cardenas told them he had to attend another meeting but wanted to share something with them before he left.

"Do you remember the big new account that was on everyone's mind about a year and a half ago?" he asked.

Susan and Charles nodded.

"Well, the meeting is with the cross-functional team we put together to try to sell that account," he explained. "They worked on the project for over a year—spent more than a million dollars. They had tough competition too, from three other firms. To deal with that, we told them they were empowered to do whatever they thought was necessary to win, within our principles, of course. And have they been independent! They've adopted two rules: first, to ensure that no one pulls rank in a team meeting, they require you to check your badge before the meeting starts—every-one is an equal participant; second, unless you've been in contact with the customer, you're not allowed to make any decisions—outside executives can't suddenly step in and take over."

The two managers looked incredulously at their boss.

"Have they really held to that?" Susan asked in amazement.

"Yes, they have," Cardenas said with a smile, his eyebrows raised as if he were as surprised as she. "I'll give you an example.

"At one point our three competitors brought in their chief executive officers to meet with the customer's chief executive officer. It was obvious they were trying to get an advantage over one another—and us.

"Our team met to decide what to do. They asked our CEO if he would come to a meeting with the CEO of the customer, and he responded favorably. Then they asked the customer's procurement group if it would be a good idea to bring in our CEO.

"'You can do it if you wish,' the group's representative replied. 'We're sure our CEO would be delighted to visit with yours. But it won't do you any good. We're an empowered team, and we have the full authority to make the decision about whom to give this contract to.'

"So," continued Cardenas, "our team debated the matter and decided not to bring in our CEO. They told his office he need not come."

Susan and Charles were wide-eyed. "They told the CEO not to come?" Charles asked in disbelief.

"Yes," Cardenas nodded, grinning.

"That was taking one heck of a risk," Charles remarked.

"It certainly was," Cardenas responded. "But the team had decided that if they didn't bring in our CEO and every other competitor did, it might give us a small degree of distinction."

Charles shook his head, still amazed at the team's decision to rebuff the firm's CEO.

"At least it worked out well for them," Cardenas concluded. "We learned just this morning that we've received the contract. It's a huge one and we're all delighted."

He reached for a folder on his desk. "I wish it were my achievement too," he mused, "but the team doesn't report to me. I do supervise some of the team's members, but it also has members who work for other bosses. So the team really is its own boss. And they did a good job."

He stopped and thought for a moment. "Maybe too good a job," he said with a wry smile. "Now they'll want a big bonus for their success, and then they'll want us to find them another opportunity like this, so they can have a chance to hit another homer and win another big bonus."

As he got up from his desk, he added, "I really won't be having much time for you. With the delayering, I now have far too many people reporting to me for me to spend much time with any one or two of them. And I have these cross-functional teams to work with. You're going to be on your own to a much greater degree than in the past. But I have confidence in each of you and know you'll do a good job."

With the folder tucked under his arm, he hurried toward his office door. "You can stay here until you're finished meeting," he called back to them before bounding out the door and down the hall.

The office was quiet for a few moments. Finally, Charles broke the silence by asking the obvious question: "What are we going to do, Susan?"

"I don't know," she replied. "I'm already working as fast as I can. If we keep going like this—downsizing and trying to do as much as before—we'll just run ourselves to death."

"What alternative do we have?" Charles asked her.

"We could try something different."

"Whatever we do," he suggested, "I think we ought to play to win, not just to keep from losing."

"Yes, I agree," Susan responded. "We're already losing just by trying not to lose. Also, I think we should try to love preparing to win. What we've really got to do is find a way to transform this company into a winner. We've got to keep our costs down, get our quality up, and be so responsive to customers that we blow away our competition. Then we can stop downsizing all the time. I'm sick of laying off people."

"It's all up there on the board," Charles said, gesturing toward the white board with the list Cardenas had written on it. "See? Cost, quality, and responsiveness."

"Yes," Susan said pensively, "it's all there, except . . ."

She stood up and walked over to the white board. On it she added, as the final outcome of what John Cardenas had written previously:

- *A New Management Style*
- *A New Organization Structure*

She turned to Charles, who shook his head in agreement. Then he went over to the white board and accepted the marker which she offered him.

"We could try using empowered teams, like the one that just won that big contract," he suggested. Turning to the board he wrote opposite what Susan had written:

- *A New Management Style–EMPOWERMENT*
- *A New Organization Structure–Empowered Teams*

"But if we agree to try this, we have to understand what it really means," Charles continued.

"Yes," Susan replied.

"We ought to set up a program with goals and timetables," he proposed.

But Susan frowned upon hearing this. "You engineers," she said. "You always want to make a program of everything. You'll overmanage it to death."

"If you can't measure it, you can't manage it," Charles said with certainty.

He went to write on the board, then hesitated. "What exactly are we talking about anyway? What is an empowered team? How does it work? Are you and I supposed to be part of it? How will we supervise it?"

"I think we can just do it," Susan suggested. "We don't need to make a big deal out of it. We'll just set up some teams and tell people that now they're to make the decisions and take action."

The look of astonishment on Charles' face made her reluctant to say anything more. The two colleagues looked at each other for a few moments in silence, until Susan gave in.

"I think," she said, "that some people can accept a new way of working without needing extensive preparation. They can be fully flexible—just let things go the new way. But others need a framework—a concept—to provide them with an understanding of what the new method is, of what they're expected to do and how different it is from the way they worked in the past."

"I need that," Charles said, "and the people who work for me need it too."

"So we have to offer a framework," Susan concluded.

"Let's work up a set of goals for our effort," Charles suggested.

After an hour at the white board, the two had worked out a list of objectives:

Goals for Organizational Transformation

To meet our goals, we will do the following:

1. *Learn a common academic model of management*
2. *Improve our understanding of the reasons for the shift in management styles*
3. *Develop a common understanding of empowerment*
4. *Introduce empowered teams*
5. *Add to our efforts to transform the business*
6. *Obtain converts for the transformation effort*
7. *Reinforce the company's continuous quality-improvement effort*
8. *Build for the long term while improving immediate performance*